



Finance Management

Elixir Fin. Mgmt. 31 (2011) 1929-1934

Elixir
ISSN: 2229-712X

Managing downturn in the turbulent time innovatively – a case study of selected Indian IT companies

N.Maruti Rao, and Iftikhar Ahmed Naikwadi
Karnatak University, Dharwad.

ARTICLE INFO

Article history:

Received: 28 December 2010;

Received in revised form:

20 January 2011;

Accepted: 1 February 2011;

Keywords

GFM: Global Financial Meltdown ,
DOS: Day's Outstanding Sales,
ARPC: Average Revenue per
Customer.

ABSTRACT

The Indian IT companies have devised various innovative measures to face Global financial meltdown which has left its adverse impact on bottom-line of companies across the globe. Innovative strategies have helped IT majors to give improved results. IT sector has to use this downturn as an opportunity to learn, study the market carefully and design strategies accordingly. The IT players should look for servicing customers in new ways; offer them better solutions at affordable price. The paper looks into few critical areas of managerial concern such as Business Resource Planning, Towards Effective Pricing, Better customer Orientation in particular at the time of crisis, Enhancing average revenue per customer, Building long term relations with clients, Innovative initiative to engage bench employees, etc.

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Introduction

The world economy is under the firm grip of Global Financial Meltdown, causing panic among various constituents of the world economy. This menace of GFM has shaken up the financial and economic systems around the globe. Global financial crisis has resulted in economic recession around the world and its impact is so severe that the companies around the world in general and Indian companies in particular are forced to take measures like salary cut, retrenchment, layoff as a short cut means of battling out the worst ever financial crisis since 1930's great depression. However, there was some silver lining in the dark as many of the Indian companies went on adopting innovative measures to battle out the global financial meltdown. These creative practices might not have helped companies' bottom line to go northward but was of tremendous help in arresting the southward moving profits, in the process protecting the larger interest of various stakeholders and image of corporate India.

Indian IT industry was one among who felt the burnt of global financial crisis. The continuous nose diving bottom-line of IT companies has made most of them to initiate various measures which mainly comprises of uncalled for measures such as lay off, reduced pay package, etc. Such undesirable measures could be detrimental to the employees, corporate image, productivity and efficiency and society at large. Wipro Technologies Ltd has adopted a measure by asking freshers hired for IT services to join BPO division and they need to pay upfront Rs.75,000 for bond. This initiative has backfired with the hired engineers protesting against such move and taking up the matter with West Bengal IT Minister. TCS has out-placed 1,300 employees on the grounds of non-performance. TCS is also planning to lay off 3,000 employees. TCS Ltd also has taken initiative to freeze the increments. Infosys Technologies Ltd has fired 2,100 people across the country, after an annual performance appraisal exercise. The appraisal was conducted for 60000 employees. 'Outplacement' is a new jargon used by enterprises during meltdown which is euphemism to firing.

However it was pleasure to note that some of the corporate entities came out with innovative ways of managing downturn without causing any discomfort to the stakeholders. The various innovative measures and strategies initiated by corporate India have saved them from worsening situation. So, GFM proved as a good opportunity to emulate innovative management practices for Indian corporate entities. In other words, GFM has made Indian entrepreneurs think and act innovatively signaling Indian entrepreneurs are not imitative but they are innovative entrepreneurs.

In the backdrop of this development a study was conducted to highlight some of the innovative practices do adopted by Indian IT companies to manage economic downturn effectively.

Abbreviation

GFM: Global Financial Meltdown

DOS: Day's Outstanding Sales

ARPC: Average Revenue per Customer

Objectives

The present study was undertaken with the following objectives:

- 1) To study the innovative management practices adopted by selected IT companies in India.
- 2) To draw conclusion about innovative management practices.
- 3) To suggest innovative management practices to manage downturn.

Methodology

The information for the study has been collected from secondary sources and interaction with corporate managers and observation. The study is descriptive in nature.

Period of the study

The period of study has been confined to July 2008 to May 2010.

Meaning of key words used

Economic Recession: A temporary downturn in economic activities. Recession involves at least two consecutive quarters of falling GDP. It is characterized by falling industrial production, unemployment, fall in personal income, consumer

spending, stock prices, commodity prices and business spending, corporate bankruptcies, etc.

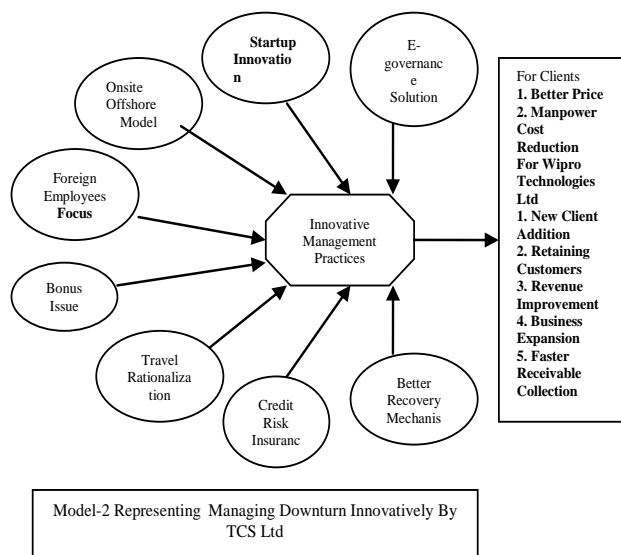
Global Financial Meltdown: Crisis in debt market, sub-prime mortgage market, currency market, banking industry, Mutual fund industry and capital market crashes in US, European and Asian countries is called as GFM.

Innovation: The term innovation means a new way of doing something. It may refer to incremental, radical, and revolutionary changes in thinking, products, processes, or organizations.

Average Revenue per Customer: It is a function of the total earnings of a company in a fiscal divided by the total number of active clients.

Tata consultancy services (tcs) ltd

Tata Consultancy Services Ltd is one of the pillars of Indian IT industry. TCS initiated various innovative management practices to battle out global financial crisis. Let's have a look at some of the significant innovative measures do adopted by TCS.



1. The coin..... Startups Innovation strategy

TCS Ltd has adopted a Startups Innovation strategy. It has expertise team which search universities and tech stalwarts to pick innovators and motivates them to join innovation team called as COIN.

The COIN develops new tech products. It gives TCS access to new technology that might take many years to develop if TCS Ltd did it on its own. This initiative is of great help in bringing tech products to the business market more quickly and cheaply than traditional model. TCS Ltd has partnerships with many dozens of startups, to name a few, MetricStream and Cassatt in California, and Collabnet, a collaborative-software company in Brisbane, California. This strategy has helped TCS to manage the downturn in a better way.

2. Towards Low Cost Destination

The TCS Ltd has adopted an onsite-offshore model with the objective to relocate staff abroad (US, Europe and other geographies) into India in order to cut cost. Through this model the company wants to do more work in India because it helps in saving cost and increased efficiency. The relocation of US staff to India has resulted in a cost saving of Rs 1210 millions. Relocation may leads to lay-off, but, TCS Ltd has not laid off employees.

3. Foreign Employees Focus.....

In the wake of growing anti-offshoring sentiments in the US,

the world's biggest market for software services TCS Ltd is planning to increase the proportion of foreign employees in their workforce as they seek to address protectionist lobbies and position themselves as job creators in the markets they serve.

4. Rewarding Investors during downturn.....Bonus Issue

To keep moral of investors at high, TCS Ltd has announced a bonus issue of shares, at 1:1 ratio. The consolidated net profit for the company was up by 4.5% at Rs.52.56 Billions in the year 2008-09 against Rs.50.26 Billions in the previous year. The consolidated net sales were up by 21.6% at Rs.278.13 Billions in the year 2008-09 against Rs.228.63 Billions in the previous year.

5. Travel Rationalization Policy

TCS Ltd has adopted travel rationalization policy to cut travel budget which is major component of expenditure of any IT company in India. It has adopted measures like avoiding travel wherever possible, to cut costs by using telephone and telephonic conversations, web casting. The company has increased the number of video conferences between cities in India. This policy has helped TCS to cut its travel budget. The travel budget has come down from Rs.3.82 Billion in first quarter of 2008-09 to Rs.3.30 Billion in second quarter in 2008-09 (decrease by 14 percent).

6. Credit Risk Insurance.....To Protect Cross Border Receivables

TCS Ltd has taken credit risk insurance coverage from Export Credit Guarantee Corporation of India against payment delinquencies of IT importers anticipating default from overseas clients in the time of global crisis.

7. E-governance Solution

TCS Ltd has opened a 1500 seat centre in Lucknow to develop solutions for global firms and to support the e-governance initiative of Uttar Pradesh and Uttarakhand. The centre is an addition to its Global Network Delivery Model. In this centre, TCS is planning to develop solutions for global firms from different countries such as US, Canada, UK, Singapore and South Korea.

8. Days Sales Outstanding Better Recovery Mechanism

TCS Ltd has taken measure to cut down DOS (Days Sales outstanding) to manage receivables effectively. The DOS of TCS Ltd was 86 days in the fourth quarter of 2007-08 which decreased to 78 days in the fourth quarter of 2008-09. TCS Ltd has initiated a measure called as "due diligence" on contracts, pricing, and payment options. This initiative has helped TCS Ltd to reduce the total number of debtor days to 12 in March quarter of 2008-09.

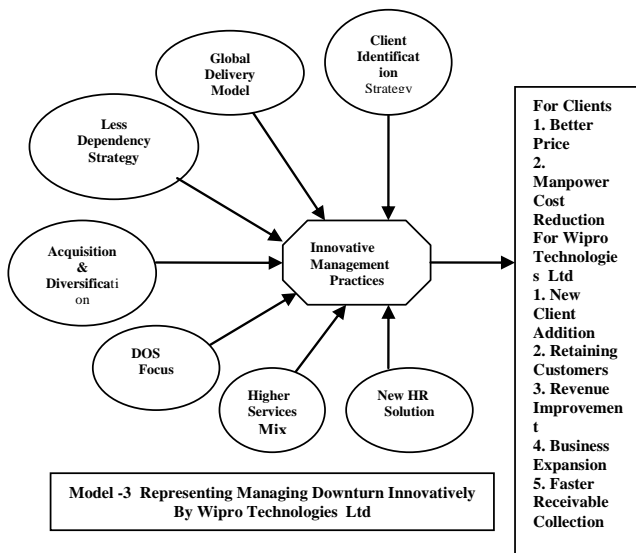
Wipro technologies ltd

Wipro Technologies a Global Indian IT giant of India is the leader in providing integrated business, technology and process solutions on a global delivery platform. Wipro known for its process excellence, quality frameworks and service delivery innovation, delivers extra ordinary value proposition to the customers .Wipro enjoy the distinction of the World's first CMMi Level 5 certified software services company. The company is no exception to global financial meltdown, but it remained as innovative as ever in managing the downturn. Some of the steps taken by Wipro to handle the impact of GFM are highlighted as under.

1. Client Identification Strategy Better Service Orientation

The Company has adopted a new client identification strategy which has helped Wipro Technologies Ltd to add 110 new clients during 2008-09. Wipro Technologies Ltd is now

eyeing opportunities in the emerging markets, such as Middle East and Asia/Pacific by adding new clients, where it already has a strong presence. The firm targets large transformation SOA (Service-Oriented Architecture) deals that are more than \$50 million in contract value.



2. Global Delivery Model Enhancing Efficiency

Global Delivery Model has helped Wipro Technologies Ltd to outperform compared to its larger rivals TCS and Infosys Technologies Ltd. The company was focusing on improving productivity, realignment of cost structure, higher utilization of manpower, improving offshore mix in its Global Delivery Model. This has helped company to offer better price to overseas customers.

3. 360° FocusLess Dependency Strategy

Less Dependency Strategy has come as a great advantage in the meltdown period. As a part of this strategy the company never over depends on either a customer or a service line or geography.

4. Towards Expansion Acquisition & Diversification

The Wipro Technologies is seeing downturn as an investment opportunity. It is planning to acquire companies as it was evident from the statement given by chairman Azim Premji "Economic downturn provides a great opportunity to invest strategically for future as assets could be acquired at lower prices and investments can be made at lower costs". As a part of Diversification strategy Wipro Technologies Ltd has set up new business unit called as healthcare business unit and adopted new practices for serving healthcare customers in a better way.

5. Reducing DOS

Like its other business rivals, Wipro Technologies Ltd is also focusing on bring down Days Sales Outstanding. It has adopted receivable management strategy which has helped to bring down 'Days Sales Outstanding' from 67 days in the fourth quarter of 2007-08 to 62 days in fourth quarter of 2008-09.

6. Customer Retention.....Through Value Added Services Tarang is a new development at Wipro Quarters. Tarang provide solution in domain of offering consultancy, pre-compliance testing and certification services. The company is also planning to offer this facility to third parties for testing their products. This initiative gives Wipro an edge over its competitors.

7. Better Offering..... To Improve Revenue

In order to retain its existing customers the Wipro is offering them higher mix of services. This strategy has helped

the company not only retain its clients but also improve its ARPC from 202 millions in 2007-08 to 250 millions in 2008-09.

8. Cost Control Drive..... To cut Travel Budget

Wipro Technologies Ltd has initiated cost cutting drive to cut travel cost. It has employed 30 cost-cutting measures, particularly in the area of operations to tackle the current downturn. To name the few of right-sizing cost structure initiatives are, reducing or canceling executive business trips, promoting video conferencing. These practices have helped the company in reducing travel cost by 1 percent. In other words, the travel cost has reduced to Rs.4.57 Billions in second quarter of 2008-09 from Rs.4.61 Billions in first quarter of 2008-09.

9. Innovative Human Resource Management Solution.....

The Indian Corporate world has been waiting for quite long time for a cost effective human resource management solution which can offer a wide range HR solutions such as, workforce management, compensation management and HR business intelligence, performance appraisal, Training etc.

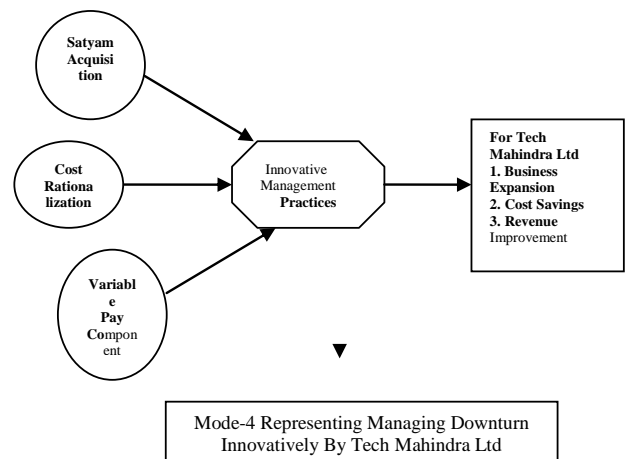
The need of such system was badly felt by the corporate world during economic recession which ensures cost reduction. Presently the companies in India are using complex enterprise software by paying the vendor and then hiring costlier consultants to implement it.

This has made software project expensive, long drawn and a complex affair. The Wipro Technologies Ltd in association with Oracle has launched a BPO service delivery model called as 'Simplify'. 'Simplify' allows clients (employers) to centralize and standardize processes and eliminate duplicative management structure thereby reducing cost and time which enables employers to focus on their strategic business opportunities and revenue generation. Ashutosh Vaidya, head of Wipro BPO, said: "This is the only solution of its kind that can address the needs of multi-national companies across the Asia-Pacific region, Europe and North America."

Tech mahindra

Tech Mahindra is well known IT firm in the country with the focus on the communications industry. By offering differentiated services and flexible partnering models Tech Mahindra helps customers reduce operating costs and generate new revenue streams. For wireless and broadband operators in Europe, Asia-Pacific and North America Tech Mahindra has been the chosen transformation partner.

The company is also faced the burnt of global financial meltdown, but it could face menace of GFM by resorting to innovative management practices. Here below we have mentioned few bold measures taken by Tech Mahindra to deal with the impact of GFM.



1. Expansion through..... Satyam Acquisition

The GFM was not bad all the time, as some of the companies saw it as expansion opportunity by acquisitions at discounted valuations. Tech Mahindra has acquired Satyam Computers Services at a best price to improve its market share and competitive strength.

As major chunk (appx. 90%) of revenue of Tech Mahindra come from telecom. Therefore Tech Mahindra's interest in Satyam's telecom business was obvious. Satyam's exposure to verticals like manufacturing, healthcare, financial services and auto will help Tech Mahindra to diversify its revenue streams. Tech Mahindra also get strategic advantage on account of geographically diversified presence of Satyam.

Similarities in Management Practices among IT Firms

2. Cost Rationalization

As a part of cost saving drive Tech Mahindra is focusing on cost rationalization in the areas of manpower, rentals, travels, marketing and training, infrastructure (power, water and telephone). The mechanism has helped the company to save Rs.300 crores per quarter in 2008-09. Tech Mahindra has made 1500 campus offers for 2008-09. But, it has deferred these appointments by two quarters in 2009-10. It has also postponed most of its campus led long term hiring programmes. It has planned for optimization of human resource of Satyam to minimize the cost.

3. Variable Pay Component..... New Compensation Package

In tune with cost cutting drive Tech Mahindra has increased the variable pay component in the compensation package of all its employees to counter the slowdown in demand for IT services.

The company has restructured its pay package from fixed to performance based. As per the performance based pay package, the employees have opportunity to earn beyond their promised CTC (Cost to company) if they over achieve in a specified time period. There were changes made by increasing the variable pay to 20 percent of overall cost to company from 10 percent earlier.

Variable pay directly moves with performance of employee. In other words, if employee is able to contribute to revenue or growth of the company, then he will get higher pay. So, pay move with business performance of the company.

This is an innovative strategy initiated by tech Mahindra to bring down employees cost which account for more than 50 percent of its overall cost.

The models represent the out come of these innovative practices in the form of benefits they do carry towards clients and for the company itself. The Modle-1 exhibit the input (innovative practices) –output (Benefits) relationship of the TCS Ltd. Here we found that the key benefits delivered to the clients was new and cost effective products.

At the same time TCS Ltd was in a position to enjoy the fruits in the form of confidence building, positioning itself as job creator in host country, retaining customers, cost savings, payment risk reduction and improving Global network.

The innovative practices brought a number of advantages for Wipro Technologies Ltd as revealed by Modle-2. The key benefits for the clients were better price and manpower cost reduction. For the company the gain was new client addition, retaining customers, revenue improvement, business expansion and faster receivable collection.

The Tech Mahindra was benefited by adopting innovative management practice during downturn. As exhibited by modle-3, the company was in a position to reap the benefits by way of business expansion, cost savings and revenue improvement.

Conclusion

Tata consultancy services ltd

➤ Startups Innovation strategy adopted by TCS Ltd was oriented towards developing new tech products. This strategy has helped TCS to manage the downturn in a better way.

➤ TCS Ltd has adopted an *onsite-offshore model* with the objective to relocate staff abroad (US, Europe and other geographies) into India. The company brought back its US staff to India resulting in a cost saving of Rs 1210 billion.

➤ TCS Ltd planning to increase the proportion of foreign employees in their workforce as they seek to address protectionist lobbies and position themselves as job creators in the overseas markets they do serve.

➤ To keep moral of investors at high, TCS Ltd has announced a bonus issue of shares, at 1:1 ratio.

➤ TCS Ltd has adopted travel rationalization policy to cut travel budget. This initiative has helped to bring down travel cost from Rs.3.82 Billions in first quarter of 2008-09 to Rs.3.30 Billions in second quarter in 2008-09.

Wipro technologies ltd

1. The Company has adopted a new client identification strategy which has helped Wipro Technologies Ltd to add over 100 new clients during 2008-09.

2. Global Delivery Model adopted by Wipro has helped company to offer better price to customers. This strategy has helped Wipro Technologies Ltd to outperform compared to its larger rivals TCS and Infosys Technologies Ltd.

3. 360⁰ Focus initiative has helped company to protect fall in revenues as the company never over depended on either a single customer or a service line or geography.

4. As a part of diversification strategy Wipro Technologies Ltd has set up new business unit called as healthcare business unit and adopted new practices for serving healthcare customers in a better way.

5. Customer retention strategy adopted by Wipro Technologies has helped the company not only retain its clients but also improve its ARPC from \$4.04 million in 2007-08 to \$5.01 million in 2008-09.

6. Cost Control initiative adopted by Wipro Technologies Ltd resulted into savings over 4 millions.

Tech mahindra

7. Tech Mahindra has acquired Satyam Computers Services at a best price to improve its market share and competitive strength.

Cost rationalization policy adopted by Tech Mahindra has helped the company to save over Rs.3 Billions per quarter in 2008-09.

8. Variable Pay Component package announced by the company will help to bring down manpower cost which account for more than 50 percent of its overall cost.

Suggestions

✓ In the present economic scenario, corporate entities around the world are looking for new ways to do business, searching for new markets, better attention towards corporate governance, customers expectations have changed now they are demanding higher customer services.

✓ Hence IT companies must focus towards these critical requirements of clients.

✓ There should be continuous innovation towards developing better products (IT solutions) at lowest cost possible.

✓ As the models developed for the purpose of the study reveals that there is varying degree of benefits the companies could pass on to clients depending on degree of orientation they have towards innovative practices they adopted.

- ✓ Hence there is need felt of innovative practices to be adopted by the company to pass on better benefits to the clients.
- ✓ During downturn period foreign exchange risk is too high hence to mitigate foreign currency risk, the IT companies should use foreign currency swap subject to they are planning to raise fund from international markets for their growth plans.
- ✓ IT Companies such as HCL BPO, EXL Service Holdings etc. are turning to their own employees for smart ideas to cut down unnecessary costs for the companies in the areas of travel, power, etc.
- ✓ IT players should encourage employees to involve in contributing and sharing ideas on managing costs.
- ✓ The IT companies may also consider out come based pricing model as a means to battle out GFM. During the period of economic slowdown in particular, corporate entities are looking for solution which measures outcome of solution. Hence, it is suggested that the IT players should develop a new business model like solution outcome model to address this issue.
- ✓ Wipro and Tech Mahindra should take cover for cross broader receivables from Export Credit Guarantee Corporation of India ECGC provides credit risk insurance to policyholders against payment delinquencies of importers. TCS has already taken such cover.
- ✓ Notwithstanding a difficult economic environment, the Indian small and medium enterprises are keen to invest and adopt green initiatives. Green initiatives refer to initiatives taken by companies to reduce cost and consumption of energy including fuel these initiatives includes environmental audit, purchase of emission cards, improvement in supply chain efficiency, retrofit of existing server rooms, use of virtualization technology to their servers, consolidation of their storage systems.

These initiatives will leads to savings in operational expenditure, lower space and power and higher return on investments. All these areas offer great business opportunity for IT firms in the time of crisis.

The Indian corporate have worked out ways and means to deal with the global financial meltdown. Innovative strategies have helped IT majors to give improved results in fourth quarter of 2008-09 compared to previous quarter. The global financial meltdown offers both challenge and opportunity to the technology sector.

IT sector has to use this downturn as an opportunity to learn, study the market carefully and design strategies accordingly.

The IT players should look for servicing customers in new ways. The financial meltdown has ensured that almost all companies are implementing cost-cutting strategies.

If implemented above suggestion with true spirit, it may be of great help in managing global financial meltdown and will help in improving bottom-line.

Suggestion for future research

As we know the management practices do changes across industries in general and firms in particular. At the same time quantifying of benefits is tedious task.

Hence the study suggest for further research to look into more detail and develop a framework for management practice to be adopted by IT firms.

At the same time a quantitative model can be developed with respect to benefits derived by virtue of emulating those practices.

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Similarities in Management Practices among IT Firms

Decision Making Area	TCS	Wipro Technologies	Tech Mahindra
Pricing	-	Global Delivery Model -offering better price to overseas customers	-
Customer Services			
Human Resource	Foreign Employees Focus – Increasing foreign employee proportion	-	-
	-	-	-
Marketing	1500 seat centre - to develop solutions for global firms and to support the e-governance initiative	Client Identification Strategy- add ion of 110 new clients	-
	-	360 ⁰ Focus -Less Dependency Strategy -	-
Innovation & Transformation	Startups Innovation strategy – d eveloping new tech products	Human Resource Management Solution	-
Cost Cutting	Onsite-offshore model –relocation of staff abroad	-	Variable Pay Component
Risk Management	Credit Risk Insurance -Protect	-	-

Dissimilarities in Management Practices among IT Firms

Decision Making Area	TCS	Wipro Technologies	Tech Mahindra
Cost Cutting	Travel Rationalization Policy	Cost Control Drive	Cost Rationalization
Working Capital	Days Sales outstanding -reduced outstanding days from 86 to 78	Receivable management - reduced outstanding days from 67 to 62	-
	-	Costumer Retention	-
Marketing	-	Higher Service Mix.	-